

Message Text

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ORIGIN EB-07

INFO OCT-01 AF-08 ARA-06 EUR-12 NEA-10 ISO-00 USIE-00
FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00
DODE-00 FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00 NSC-05
OMB-01 PM-04 OES-06 SP-02 SS-15 STR-04 TRSE-00
ACDA-07 SSO-00 INRE-00 NSCE-00 SIL-01 LAB-04 XMB-02
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DRAFTED BY EB/ORF/FSE:WMILAM:DHART:KG
APPROVED BY EB:PBOEKER
EB/ORF/FSE:MVCREEKMORE
EB/ORF:SWBOSWORTH
NEA/RA:RPRICKETT
ARA/ECP:SROGERS
EUR/RPE:ADSENS
AF/EPS:RDUNCAN
EA/EP:AGEBER

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C O N F I D E N T I A L STATE 301173

E.O. 11652:GDS

TAGS: ENRG

SUBJECT: OPEC PRICE DECISION

1. WE BELIEVE OUR COMPREHENSIVE DIPLOMATIC EFFORT TO
DETER A FURTHER OPEC PRICE INCREASE HAS HAD A SIGNIFICANT
IMPACT ON EXPECTATIONS AND IN INFLUENCING THE DYNAMICS
OF THE OPEC DECISION MAKING PROCESS. IN ADDITION TO
YOUR HIGH-LEVEL REPRESENTATIONS, A NUMBER OF DIPLOMATIC
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EFFORTS HAVE BEEN UNDERTAKEN:

-- SENIOR ADMINISTRATION OFFICIALS HAVE MAINTAINED AN ACTIVE DIALOGUE WITH LEADERS OF VARIOUS OPEC COUNTRIES WITH EMPHASIS ON THE PRINCIPAL PRODUCERS. IN THIS DIALOGUE WE HAVE STRESSED THE ADVERSE IMPACT OF A FURTHER PRICE INCREASE, CALLED PARTICULAR ATTENTION TO THE PLIGHT OF THE DEVELOPING COUNTRIES, AND RAISED APPROPRIATE POLITICAL AND BILATERAL CONSIDERATIONS.

-- WE HAVE CONSULTED WITH THE LEADING INDUSTRIALIZED COUNTRIES AND OTHERS TO SHARE OUR RESPECTIVE ANALYSES AND TO ENCOURAGE SEPARATE APPROACHES TO OPEC MEMBERS.

-- WE HAVE APPROACHED SELECTED INFLUENTIAL LDCS AND MOST AFRICAN GOVERNMENTS TO ENCOURAGE THEM TO MAKE THEIR VIEWS ON A NEW PRICE INCREASE KNOWN TO OPEC MEMBERS.

-- WE HAVE PROVIDED CONTINUING GUIDANCE TO ALL DIPLOMATIC POSTS WHICH THEY ARE USING IN CONTACTS WITH HOST GOVERNMENT OFFICIALS TO MAKE THE US POSITION AND ANALYSES KNOWN AND TO REFUTE ERRONEOUS ARGUMENTATION FROM OPEC SOURCES.

-- THROUGH PUBLIC STATEMENTS AND BACKGROUND MATERIAL WE HAVE ENSURED THAT THE PRICE ISSUE HAS BEEN GIVEN THE PUBLIC EXPOSURE AND IMPORTANCE IT WARRANTS.

2. NEW OFFICIAL REPRESENTATIONS JUST PRIOR TO THE DOHA MEETING COULD REINFORCE OUR OVERALL DIPLOMATIC EFFORTS. AT YOUR DISCRETION YOU SHOULD APPROACH YOUR HOST GOVERNMENT TO REITERATE THE ECONOMIC ARGUMENTS AGAINST A NEW PRICE INCREASE AND TO ENCOURAGE THEM AGAIN TO ENSURE THAT OPEC FULLY UNDERSTANDS THE IMPACT OF A PRICE INCREASE ON THE OIL IMPORTING DEVELOPING COUNTRIES.

3. TALKING POINTS.

-- THE OIL PRICE INCREASES OF 1973/1974 CONTRIBUTED SUBSTANTIALLY TO THE SEVERE GLOBAL RECESSION OF 1975.

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-- A NEW PRICE INCREASE WOULD BE HARMFUL TO THE STILL FRAGILE RECOVERY OF THE WORLD ECONOMY. EACH FIVE PERCENT INCREASE WOULD INCREASE THE OIL BILL IN CONSUMING COUNTRIES BY \$6 BILLION. VIEWED GLOBALLY, THIS LOSS OF PURCHASING POWER WOULD BE OFFSET ONLY PARTIALLY AND WITH AN EXTENDED LAG BY PRODUCING COUNTRY PURCHASES.

-- ANY ADDITIONAL OIL PRICE INCREASE WILL ADD SUBSTANTIAL-

LY TO THE RATE OF INFLATION IN THE MAJOR INDUSTRIALIZED COUNTRIES.

-- THE IMPACT OF A PRICE INCREASE ON CERTAIN INDIVIDUAL INDUSTRIAL COUNTRIES PARTICULARLY THOSE HEAVILY DEPENDENT ON OIL IMPORTS, WOULD BE PARTICULARLY SEVERE.

-- THE NON-OIL DEVELOPING COUNTRIES WILL SUFFER MOST FROM A NEW PRICE INCREASE. THEIR OIL BILLS HAVE ALREADY RISEN FROM \$3 BILLION IN 1973 TO \$13 BILLION IN 1975, SEVERELY CONSTRAINING THEIR DEVELOPMENT EFFORTS. FOR EACH NEW 5 PERCENT INCREASE IN OIL PRICES, THESE COUNTRIES WILL FACE MORE THAN A \$1 BILLION LOSS ON THEIR TRADE ACCOUNT.

-- EACH 5 PERCENT INCREASE IN OIL PRICES WILL REQUIRE AN ADDITIONAL \$1.2 BILLION IN FOREIGN BORROWING IF THESE COUNTRIES ARE TO MAINTAIN IMPORTS AND CONTINUE TO GROW. THIS WILL PLACE ADDITIONAL STRAINS ON THE WORLD'S FINANCIAL INSTITUTIONS.

-- IN ADDITION TO ITS ADVERSE IMPACT ON THE WORLD ECONOMY A NEW PRICE INCREASE IS ECONOMICALLY UNJUSTIFIED. CLAIMS THAT THE PRICES OF OPEC IMPORTS HAVE RISEN DRAMATICALLY IN THE PAST VARY WIDELY FROM ANY SET OF DATA OF WHICH WE HAVE KNOWLEDGE.

-- SINCE MID-1973, THE DOLLAR PRICE OF MAJOR INDUSTRIALIZED COUNTRY EXPORTS HAVE INCREASED ONLY 30 PERCENT YET OPEC HAS INCREASED OIL PRICES BY WELL OVER 400 PERCENT.

-- THE MOST RECENT STUDY, DONE BY THE US BUREAU OF CONFIDENTIAL

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LABOR STATISTICS (BLS), INDICATES THAT THE DOLLAR PRICES OF THE EXPORTS OF 14 MAJOR INDUSTRIAL COUNTRIES TO OPEC HAVE RISEN BY ONLY ONE PERCENT FROM MID 1975 TO MID-1976 -- SEE STATE 297624 FOR DETAILS.

-- OTHER STUDIES OF EXPORT PRICE TRENDS TO OPEC DONE BY THE US OR OTHER INDUSTRIAL COUNTRIES USING DIFFERENT METHODOLOGIES SHOW VERY SIMILAR RESULTS.

-- THE DIFFERENCE BETWEEN THESE FIGURES AND THOSE CITED BY OIL EXPORTERS CAN BE EXPLAINED PRIMARILY BY 1) THEIR USE OF CIF FIGURES WHICH ARE HEAVILY INFLUENCED BY EXCESSIVE DEMMURAGE AND RELATED CHARGES IN CLOGGED PORTS; AND 2) THEIR TENDENCY TO ASCRIBE INCORRECTLY THE

DIFFERENCE BETWEEN INITIAL ESTIMATES AND ACTUAL PROJECT

COSTS TO INFLATION IN THE INDUSTRIAL COUNTRIES RATHER THAN THE DIFFICULTY OF ESTIMATING PROJECT COSTS IN THESE COUNTRIES AND THE EFFECT ON THEIR FINAL COST OF LOCAL INFLATION RATES AND BOTTLENECKS.

IF QUESTIONED ON THE ABOVE POINT YOU MAY WANT TO ADD THAT OUR CALCULATIONS INDICATE THAT DOMESTIC INFLATION IN OPEC AS A WHOLE HAS AVERAGED ABOUT 20 PERCENT OVER THE PAST TWO YEARS. THIS INFLATION APPEARS TO HAVE BEEN FUELED ALMOST COMPLETELY BY SKILLED LABOR SHORTAGES AND RAPIDLY RISING RENTS AND OVERLAND TRANSPORT CHARGES. ROBINSON

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 10 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ellisoob
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE301173
Document Source: CORE
Document Unique ID: 00
Drafter: WMILAM:DHART:KG
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760457-0269
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761252/aaaabswo.tel
Line Count: 183
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ellisoob
Review Comment: n/a
Review Content Flags:
Review Date: 21 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 MAY 2004 by GarlanWA>; APPROVED <09 SEP 2004 by ellisoob>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: OPEC PRICE DECISION
TAGS: ENRG, BR, US, OPEC
To: BRASILIA LIMA NEW DELHI MULTIPLE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006